

FDIC State Profile

FALL 2003

New Jersey

The New Jersey economy is strengthening, with jobs being added in the majority of the state's metropolitan areas and across many industry sectors through the first half of 2003. Weakness, however, remains in the state's information technology and manufacturing industries.

- New Jersey's employment performance has exceeded the nation's since the start of the 2001 recession and shows signs of strengthening (see Chart 1). Six of the state's eight metropolitan statistical areas (MSAs) recorded year-over-year job growth in second quarter 2003, with only **Bergen-Passaic** and **Trenton** showing continued net job losses. Bergen-Passaic's losses are still occurring in the manufacturing and wholesale trade sectors, while Trenton's weakness is centered in the professional and business services and government sectors.
- Information technology (including telecommunications), manufacturing, and professional and business services together represent more than one-quarter of all jobs in the state. The weak performance of these industries has constrained the state's overall employment growth, however, the rate of job losses has significantly eased (see Chart 2).
- As most economists expected, the rate of home price appreciation across New Jersey has slowed. While currently there is no "bursting bubble," the rates of appreciation in the state's eight metro areas have declined from their peaks. Only two areas, **Jersey City** and **Monmouth-Ocean**, are still growing at double digit rates through second quarter 2003. Some of this appreciation may be attributed to structural rigidities in the market, namely zoning restrictions and lack of space for new building.
- The northern New Jersey office market, which includes six metropolitan areas, stabilized somewhat in midyear 2003. According to Torto Wheaton Research, the aggregate vacancy rate for these areas rose slightly to 17.8 percent in second quarter 2003, up from 17.6 percent in the first quarter, and modestly above the 17.0 percent national vacancy rate. Completions increased slightly, and net absorption was positive for the first time since second quarter 2002, reflecting increased office employment (see Chart 3). The two weakest submarkets in northern New Jersey were **Newark** and **Middlesex-Somerset-Hunterdon**, which had vacancy rates of 18.1 percent and 24.4 percent, respectively. Not coincidentally, these two metro areas are also home to more than half of the state's telecommunications employment.

Chart 1: New Jersey's Employment Performance Has Exceeded the Nation's since the 2001 Recession

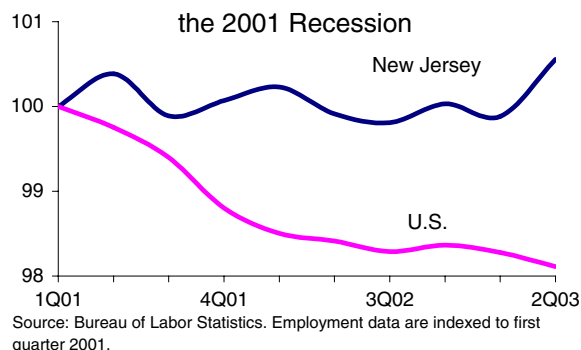


Chart 2: Manufacturing and Information Are among New Jersey's Weakest Sectors

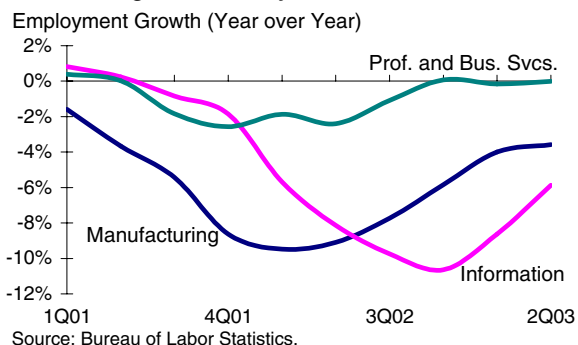
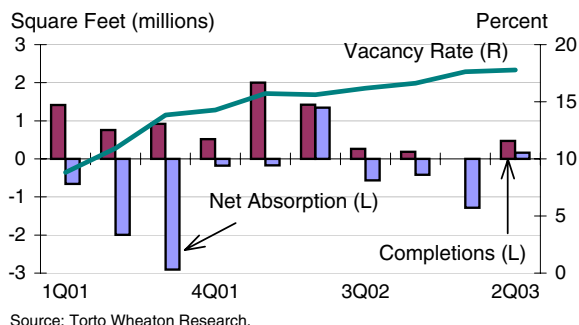


Chart 3: Northern New Jersey's Office Market Is Stabilizing and Absorption Has Improved



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The median net interest margin (NIM) reported by New Jersey's insured institutions increased from mid-2001 through mid-2002 as the yield curve steepened. However, NIM improvement has since abated.

- The median NIM increased steadily from mid-2001 through mid-2002, as a decline in short-term interest rates helped lower funding costs. Improvement in NIM, however, abated in the second half of 2002 and first quarter 2003 as the yield curve flattened (see Chart 4). Falling long-term interest rates spurred refinancing activity and pushed asset yields lower, while funding costs dropped to a lesser extent.
- Residential mortgage lenders, which comprise 41 percent of insured institutions in New Jersey compared with 12 percent nationally, have experienced strong origination volume, but may experience continued NIM contraction in coming quarters as mortgage rates reached record lows during second quarter 2003.¹ The steepening in the yield curve that occurred in the second half of 2003 may help boost margins; however, the dramatic rise in long-term interest rates likely will accompany moderation in mortgage demand.
- A high concentration of residential lenders in New Jersey and the greater popularity of long-term mortgage products in the Northeast contributed to higher concentrations of long-term assets among New Jersey's banks. The median long-term asset concentration level in New Jersey is twice that of institutions nationally (see Chart 5). Liability maturities are comparatively shorter, as most liabilities mature or reprice within three years. Banks with high concentrations of long-term assets may face asset depreciation and lengthening in asset duration given the significant rise in interest rates that began in the second half of the year, thereby heightening the importance of proper interest rate risk management practices.

Insured institutions headquartered in New Jersey continue to report favorable asset quality; however, exposure to typically higher-risk loans has increased in recent years.

- The median past-due loan ratio is lower than one year ago and less than half the national ratio of 1.95 percent. Additionally, despite weakness in employment conditions and commercial real estate markets in some of the state's MSAs as discussed above,

¹ "Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in 1-4 family mortgage loans and mortgage backed securities.

Chart 4: NIM Improvement Abated by Year-end 2002 Following Yield Curve Flattening

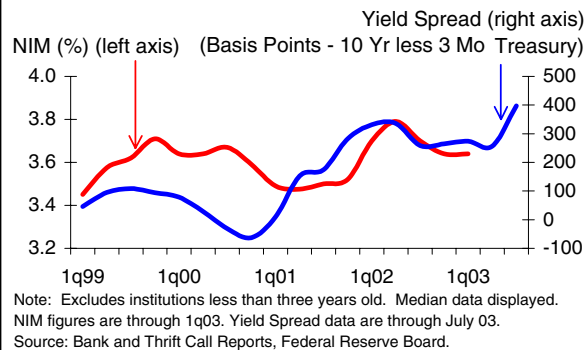


Chart 5: Long-Term Asset Concentrations Are Higher among Banks in New Jersey

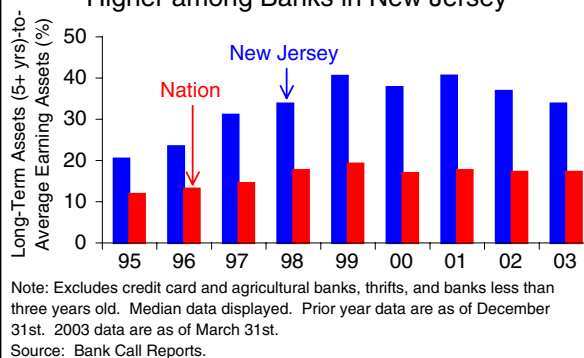
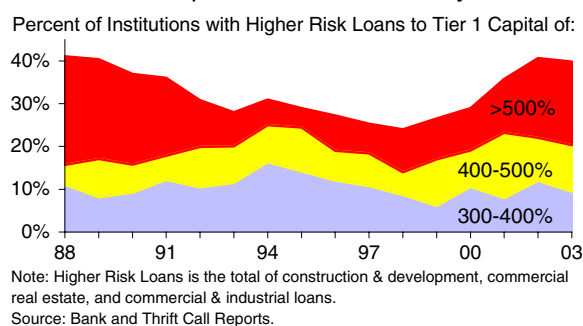


Chart 6: Exposure to Higher Risk Loans Has Risen among Insured Institutions Headquartered in New Jersey



median past-due loan ratios reported by insured institutions headquartered in these MSAs remain low.

- The percentage of New Jersey's insured institutions holding concentrations of traditionally higher-risk loans (HRL) has increased in recent years (see Chart 6). Almost one-half of these institutions were chartered during the 1990s expansion and, until recently, had not experienced an economic slowdown.

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New Jersey at a Glance

General Information	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Institutions (#)	148	152	153	146	148
Total Assets (in thousands)	141,496,655	123,810,395	113,160,332	156,507,286	142,500,504
New Institutions (# < 3 years)	14	23	29	24	17
New Institutions (# < 9 years)	43	44	41	33	25
Capital	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Tier 1 Leverage (median)	9.13	9.98	10.31	9.61	9.35
Asset Quality	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Past-Due and Nonaccrual (median %)	0.93%	1.03%	0.88%	1.06%	1.47%
Past-Due and Nonaccrual >= 5%	5	8	6	9	13
ALLL/Total Loans (median %)	1.05%	1.00%	0.96%	0.93%	0.94%
ALLL/Noncurrent Loans (median multiple)	2.21	2.01	2.05	1.62	1.35
Net Loan Losses/Loans (aggregate)	0.10%	0.31%	0.23%	0.25%	0.35%
Earnings	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Unprofitable Institutions (#)	14	20	27	22	17
Percent Unprofitable	9.46%	13.16%	17.65%	15.07%	11.49%
Return on Assets (median %)	0.83	0.86	0.66	0.81	0.81
25th Percentile	0.49	0.46	0.19	0.44	0.47
Net Interest Margin (median %)	3.65%	3.66%	3.54%	3.76%	3.61%
Yield on Earning Assets (median)	5.45%	6.25%	7.31%	7.23%	7.00%
Cost of Funding Earning Assets (median)	1.83%	2.48%	3.85%	3.55%	3.35%
Provisions to Avg. Assets (median)	0.07%	0.08%	0.08%	0.07%	0.08%
Noninterest Income to Avg. Assets (median)	0.36%	0.36%	0.38%	0.37%	0.37%
Overhead to Avg. Assets (median)	2.69%	2.80%	2.78%	2.73%	2.60%
Liquidity/Sensitivity	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
Loans to Deposits (median %)	68.03%	70.82%	68.75%	71.02%	66.28%
Loans to Assets (median %)	56.35%	58.94%	57.23%	57.65%	54.90%
Brokered Deposits (# of institutions)	19	17	11	11	11
Bro. Deps./Assets (median for above inst.)	4.66%	6.47%	4.47%	1.10%	0.74%
Noncore Funding to Assets (median)	14.95%	14.37%	14.29%	13.33%	10.04%
Core Funding to Assets (median)	73.81%	73.40%	72.81%	73.52%	76.78%
Bank Class	Mar-03	Mar-02	Mar-01	Mar-00	Mar-99
State Nonmember	52	51	50	47	42
National	22	24	26	24	26
State Member	6	6	4	5	5
S&L	11	11	11	13	16
Savings Bank	31	34	35	30	32
Mutually Insured	26	26	27	27	27
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
Newark NJ PMSA	32	15,134,876	21.62%	10.70%	
Bergen-Passaic NJ PMSA	28	47,256,268	18.92%	33.40%	
Philadelphia PA-NJ PMSA	21	16,691,937	14.19%	11.80%	
Middlesex-Somerset-Hunterdon NJ PMSA	21	28,722,457	14.19%	20.30%	
Monmouth-Ocean NJ PMSA	11	5,972,388	7.43%	4.22%	
Jersey City NJ PMSA	11	16,949,779	7.43%	11.98%	
Trenton NJ PMSA	10	5,230,315	6.76%	3.70%	
Atlantic-Cape May NJ PMSA	9	2,237,442	6.08%	1.58%	
Vineland-Millville-Bridgeton NJ PMSA	5	3,301,193	3.38%	2.33%	